ENERGY MARKET

Monthly Update

August 2019

Market Commentary

By Luke Nemes, Chief Procurement Officer & Market Intelligence Director at Transparent Energy

Last month, I wrote about the potential of an extended bear run for energy commodities for the remainder of the summer. With the exception of power markets in TX (ERCOT), and more recently crude oil futures, this has largely been the case. Given that the natural gas market is currently one that has remained oversupplied to the tune of around 2 bcf/day, the natural gas prompt-month contract slid all the way down to $2.07 in early August, effectively bearing the burden of the production surplus with no real volatility to speak of since. While natural gas producers and long position-holders alike may be growing weary of this bear market, from a buyer's perspective, there is certainly plenty ado about the opportunities at hand. We haven't seen market bottoms like this in both the natural gas and power markets since early 2016 when the price of natural gas dropped down to ~$1.65/MMBtu. What's more, we're on the verge of realizing the lowest summer average Henry Hub natural gas price since 1998.

Unfortunately, this won't stick around for much longer, as supply growth is beginning to moderate and will continue to do so through the remainder of the year and into early 2020. As that happens, and as present and forecasted demand begins to increase, so too will the price of natural gas and power. As always, there are a few short-term competing factors that will impact price trajectory over the next several weeks and months. Hurricane season is in full swing, with Dorian likely to make landfall in central Florida this weekend. This should serve to further supress demand in the southeast, though hurricanes always have the potential to negatively impact production and supply infrastructure as well. The short-term weather outlooks for most major demand centers are also largely bearish in nature which should serve to keep a cap on any run-ups associated with extreme heat and increased demand in Texas, whose reliance on gas-fired generation and intermittent renewable generation continues to ratchet up.

The most price supportive development right now is tied to LNG exports, and pipeline developments in Mexico. All six of our LNG terminals are now producing and exporting LNG (if not preparing to), and the Mexican government has finally come to an agreement with the Sur de Texas-Tuxpan Pipeline companies, which will be used to move 2.6 bcf/day from Texas to Mexico. Coincidentally, that is just enough to offset the current surplus in the market.

Quick Hits

- The EIA reported Thursday morning that, for the week ending August 23rd, U.S. inventories increased by 60 bcf, right in line with analysts' predictions of 60 bcf. During the same week last year, inventories grew by 69 bcf.
- Total stockpiles now stand at 2,857 bcf, up 14.6% from a year ago, and down 3.4% when compared to the 5-year average.
- Weather outlook turns warmer early September but overall is not supportive for a significant rally in prices; models remain mixed in the 11-16 day forecast.

Bullish Factors

- All six of the export facilities that make up the first wave of major U.S. LNG terminals are now producing LNG, though the bulk of current overall capacity is at Cheniere's two facilities; a second wave of a dozen or so export facilities are under development for start-up in the early to mid-2020s.
- Crude oil futures (USO +1.3%) are in the green but off highs of the day, after U.S. government data showed the largest weekly drop in five weeks for domestic crude supplies, helping ease concerns about slowing demand; October WTI +1.8% to $55.91/bbl, Brent +1.8% to $60.57/bbl.
- With expectations favoring above average heat and below average rainfall in southern and west Texas, there is potential for high demand and volatile electricity prices in ERCOT. However, as summer winds down in Texas the region becomes less likely to experience the extreme price-volatility we have seen over the past few weeks. August spot price average so far: $370/MWh.

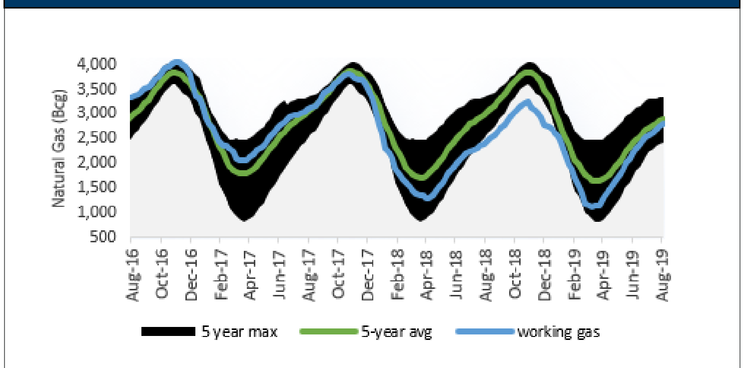
Bearish Factors

- Major weather pattern shift coming this weekend/early next week that will send the heat out West and noticeably cooler temperatures to the central and eastern U.S.
- Henry Hub natural gas spot prices for June, July, and August are expected to average $2.37/mmbtu, according to the EIA. If that forecast holds, average summer prices would be at their lowest level since 1998.
- In the case of LNG, China decided to impose 25 percent tariffs, thereby targeting a nascent U.S. industry seeking to expand to new destinations. Assuming a solution to the current dispute, LNG flows from the Gulf Coast to China are likely to reduce the U.S. trade deficit, one of Trump's main trade policy goals.

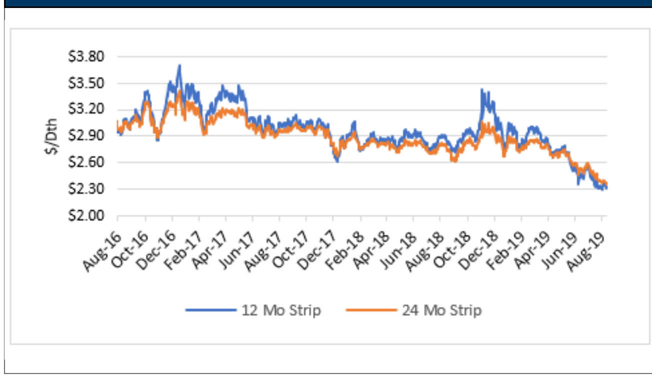
Natural Gas

CURRENT/HISTORICAL STORAGE (Bcf)							HENRY HUB PROMPT MONTH NAT GAS SETTLEMENTS							
Region	7/12/2019	7/5/2019	% Chg.		Year Ago	5-Yr Avg.	Trade Date	Open	High	Low	Settle		% Chg.	Est. Vol
East	660	634	4.10%	▲	611	689	8/21/2019	2.214	2.238	2.157	2.170	▼	-1.99%	222,895
West	1202	1165	3.18%	▲	1024	1230	8/22/2019	2.169	2.195	2.145	2.159	▼	-0.46%	119,854
Producing	935	939	-0.43%	▼	799	980	8/23/2019	2.150	2.167	2.120	2.152	▲	0.09%	88,207
TOTAL	2797	2738	2.15%	▲	2434	2899	8/26/2019	2.169	2.237	2.159	2.230	▲	2.81%	56,601

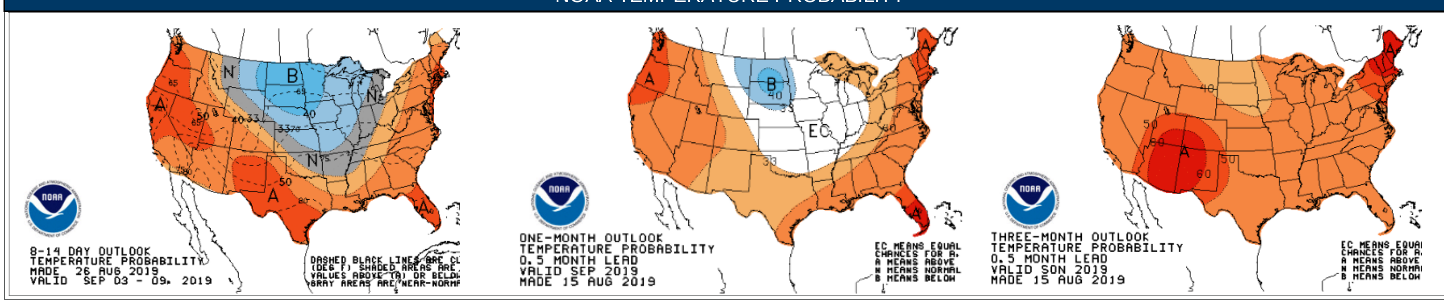
WORKING GAS IN UNDERGROUND STORAGE



ROLLING 12/24 MOS. NYMEX FORWARD STRIPS ($/DTH)



NOAA TEMPERATURE PROBABILITY



Weekly Average Retail Electricity Price Trends (Sep Start)

Week Ending	New Jersey	New York	Massachusetts	Ohio	Illinois	Texas	DC	Pennsylvania	Connecticut
12-month	$0.1019	$0.0854	$0.1084	$0.0552	$0.0611	$0.0563	$0.0793	$0.0663	$0.0962
24-month	$0.1056	$0.0839	$0.1064	$0.0557	$0.0610	$0.0542	$0.0809	$0.0673	$0.0941
36-month	$0.1066	$0.0829	$0.1052	$0.0578	$0.0614	$0.0522	$0.0837	$0.0676	$0.0933

*actual rates may vary by usage. Rates are aggregated from sources reflecting the General Service (GS) rate class.

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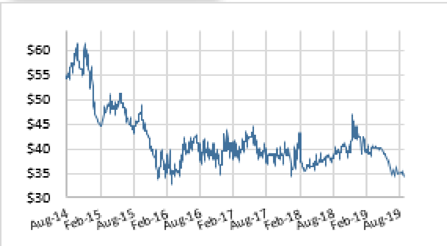
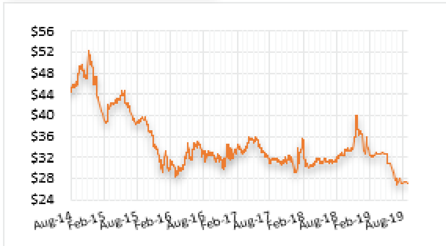
Forward Wholesale Electricity Price Settlements

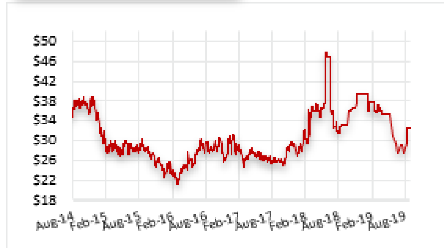
NYISO - Zone J



PJM - PSEG



ERCOT - TX NORTH



NE-ISO - MASS HUB

PJM - COMED

PJM - ATSI

Energy Market News

The U.S. is likely to flood oversupplied global oil market
https://cnb.cx/2U7i392

EIA data shows coal generation’s swift slide
https://bit.ly/2UgOnq1

Baker Hughes North American rig count
http://bit.ly/1elov2d

EIA Short Term Energy Outlook
http://www.eia.gov/forecasts/steo/

Data Highlights

WTI crude oil futures price
↓ 2.57 from week earlier
08/26/19: **$53.64 /bbl**
↓ $15.08 from year earlier

Natural Gas Inventories
↑ 59 Bcf from week earlier
08/16/2019: **2,533 Bcf**
↑ 362 Bcf from year earlier

Natural gas futures price
↑ $0.020 from week earlier
08/262019: **$2.251/MMBtu**
↓ $0.687 from year earlier

Weekly coal production
↑ 1.396 million tons week earlier
08/17/2019: **13.874 million tons**
↓ 1.146 million tons year earlier

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